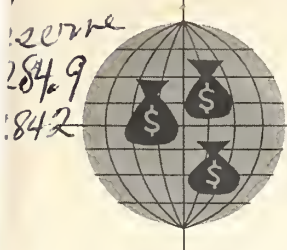


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Foreign Holdings Rise, U. S. Private Capital Outflow Cited

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GLOBAL SURVEY

In 60 of 81 reporting countries, holdings of gold, short-term dollars, and convertible dollar instruments increased during the first half of 1963 (table 1). Total public and private holdings of foreign countries, other than Communist Bloc countries, increased \$1.8 billion in the first half compared with a rise of \$1.1 billion a year earlier. Major increases were registered in most Western European countries, and in Canada, Japan, South Africa, and several Latin American countries. Switzerland and Italy registered losses in holdings.

France continued to show the largest absolute increase in gold and dollar reserves, adding \$788 million in the first half of the year. This increase enabled France to make advance repayments on international and U.S. debts in the third quarter. However, over 25 percent of the increased holdings was in gold purchased from the United States. Spain and Austria were the next largest drawers on the U.S. gold supply, purchasing a combined \$180 million. To offset these purchases, the United States bought gold from the United Kingdom and Brazil, reducing the net gold outflow to \$196 million in the first half compared with \$393 million a year earlier.

Canada's net increase in convertible dollar instruments was only partially offset by a decline in short-term dollar holdings. Increases in holdings are expected for the remainder of the year after the Canadian-Russian wheat agreement, which initially called for a 25 percent downpayment, the balance to be paid in 18 months. However, Canadian bank credit terms are apparently too high, and Russia has decided to pay a higher percentage in cash. Earnings from total wheat exports through July 1964, including those to Russia, are expected to equal Canada's annual deficit on trade account with the United States.

Italy's large decline in reserves during the period was primarily seasonal, resulting from a rapid rise in imports, particularly agricultural imports. Gains from tourist receipts in the third quarter offset losses in the first two.

Mexico, Argentina, and Venezuela enjoyed increases totaling \$284 million, but Brazil continued to suffer losses of \$80 million. Latin American countries

Table 1.--Estimated gold reserves and dollar holdings of foreign countries and international institutions

Area and country	Dec. 31 1959	Dec. 31 1960	Dec. 31 1961	Dec. 31 1962	June 30 1963 ^{1/}	Change since Dec. 31, 1962
-----Million U.S. dollars-----						
Western Europe:						
Austria.....	630	539	561	783	816	33
Belgium.....	1,279	1,314	1,582	1,539	1,607	68
Denmark.....	232	116	113	114	126	12
Finland.....	110	87	140	136	131	-5
France.....	1,980	2,165	3,114	3,747	4,535	788
Germany, Federal Republic of.....	4,640	6,450	6,509	6,412	6,465	53
Greece.....	212	139	154	196	251	55
Italy.....	3,119	3,080	3,459	3,627	3,435	-192
Netherlands.....	1,634	1,783	1,800	1,830	1,897	67
Norway.....	266	260	261	242	302	60
Portugal.....	687	637	543	633	626	-7
Spain.....	157	328	470	624	737	113
Sweden.....	505	479	679	764	772	8
Switzerland.....	2,991	2,957	3,518	3,658	3,507	-151
Turkey.....	164	152	165	165	156	-9
United Kingdom.....	3,813	4,887	4,930	4,569	4,650	81
Other ^{2/}	642	573	729	588	524	-64
Total.....	23,061	25,946	28,727	29,627	30,537	910
Canada.....	3,610	3,770	4,163	4,446	4,572	126
Latin American Republics:						
Argentina.....	393	420	426	272	394	122
Brazil.....	479	483	514	431	351	-80
Chile.....	228	180	153	178	172	-6
Colombia.....	288	237	236	206	244	38
Cuba.....	296	79	44	16	15	-1
Mexico.....	587	541	612	630	693	63
Panama, Republic of.....	132	124	88	99	112	13
Peru.....	111	114	132	152	168	16
Uruguay.....	242	232	238	282	264	-18
Venezuela.....	932	800	820	807	906	99
Other.....	265	255	293	339	397	58
Total.....	3,953	3,465	3,556	3,412	3,716	304
Asia:						
India.....	361	342	331	294	300	6
Indonesia.....	173	237	120	73	77	4
Japan.....	1,566	2,169	3,197	2,502	2,616	114
Philippines.....	184	220	213	212	215	3
Thailand.....	246	290	368	437	480	43
Other.....	1,291	1,036	1,374	1,487	1,592	105
Total.....	3,821	4,294	3,438	5,005	5,280	275
All Other:						
Australia.....	264	235	260	337	360	23
South Africa.....	194	196	330	538	636	98
U.A.R. (Egypt).....	288	207	189	188	191	3
Other.....	815	848	657	697	747	50
Total.....	1,561	1,486	1,436	1,760	1,934	174
Total foreign countries ^{4/}	36,006	38,961	42,267	44,250	46,039	1,789
International and regional ^{5/}	6,225	7,351	7,261	8,261	8,160	-101
Grand total ^{4/}	42,231	46,312	49,528	52,511	54,199	1,688

^{1/} Preliminary. ^{2/} Includes other Western European countries and unpublished gold reserves of certain Western European countries; gold to be distributed by the Tripartite Commission for the Restitution of Monetary Gold; European Fund, and the Bank for International Settlements; figures for the gold reserves of the B.I.S. represent the Bank's net gold assets. ^{3/} Total short-term dollars include \$82 million reported initially included as of Dec. 31, 1961, of which \$81 million reported for June. ^{4/} Excludes gold reserves of the USSR, other Eastern European countries, and China Mainland. ^{5/} Includes the IBRD, IMF, IFC, IDA, and other international institutions; IDB, European Coal and Steel Community, EIB and other Latin American and European regional organizations except the B.I.S. and E.F.

Federal Reserve Board.

continued to draw heavily upon the resources of the International Monetary Fund and, in many cases, reserves largely represent borrowed funds.

An analysis of international and regional institutions shows that combined holdings fell \$100 million during the first half of 1963 compared to a rise of over \$500 million during the same period in 1962. Part of the decline resulted from shifts of short-term holdings into bonds and part resulted from an increase in dollar loans, principally of the Inter-American Development Bank and of the World Bank and its affiliates. Dollar holdings of the International Monetary Fund (IMF) during the period were near the maximum 75 percent of the U.S. quota; consequently, repurchases were no longer being made in dollars, and IMF holdings did not increase. 1/ Quotas and subscriptions by new members (Jamaica, Ivory Coast, Niger, and Upper Volta) amounted to about \$117 million in the IMF and the World Bank, but were not sufficient to offset the decline.

The total increase in foreign countries' gold and dollar holdings from January to June 1963 was larger than any half-year gain since 1960, except in the second half of 1961. The large private outflow on capital account in the U.S. balance of payments is primarily responsible for this development, the gold outflow having decreased during the period.

Foreign countries' postwar holdings of liquid dollars have increased 200 percent, making the dollar the key international currency. Present holdings amount to \$21 billion, of which \$12 billion are held as official reserves, \$6 billion by foreign banks, and \$3 billion by other foreigners. Total gold holdings of foreign central banks and governments are estimated at \$23.6 billion, compared with \$13.6 billion at the end of World War II. 2/

Foreign Gold and Dollar Movements

Gold and dollar movements in certain groups of foreign countries suggest extreme differences in countries' abilities to amass foreign assets (table 2). Higher-income primary producing countries and minor industrial countries increased holdings by \$1.3 billion between 1959 and June 1963. This reflects in part an encouraging rise in export earnings of several primary producing countries, such as Venezuela, Mexico, Thailand, and the Philippines, resulting from the recovery in prices of basic commodities in late 1962 and 1963. The most striking improvement, however, was by major industrial countries, whose gold and dollar holdings rose by \$8.9 billion in the 4-year period. This increase was composed of a net gain in combined gold holdings of \$4.2 billion and an increase in dollar holdings of \$4.7 billion.

The large increases in reserves of industrial countries clearly reveal the main repositories of gold leaving the United States. The increases also

1/ The effects of a U.S. standby arrangement in the third quarter of 1963 upon the Fund's dollar holdings are discussed in the U.S. balance of payments section of this report.

2/ Federal Reserve Bulletin, September 1952, and Treasury Bulletin, August 1963.

explain why less developed countries, observing the trade earnings of industrialized countries, attempt to industrialize too soon, sometimes at the expense of reduced agricultural and other primary exports.

Less developed countries ("Other" in table 2), mainly primary producing countries, recorded a small decrease in total holdings, while their trade expanded 40 percent. Thus, countries with the highest income elasticities of demand for U.S. agricultural products are least able to make this demand effective, except through concessional sales programs. Cash purchases would reduce already low reserves that are needed for payment for industrial imports.

Table 2.--Foreign holdings of gold and dollar assets by groups 1/

Country designation	: Dec. 31 : 1959	: Dec. 31 : 1960	: Dec. 31 : 1961	: Dec. 31 : 1962	: June 30 : 1963
	:	:	:	:	:
	:-----Million U.S. dollars-----				
Major industrial <u>2/</u>	: 25,137	: 29,054	: 31,733	: 33,094	: 34,056
Minor industrial <u>2/</u> and	:	:	:	:	:
high income primary pro-	:	:	:	:	:
ducers.....	: 6,386	: 5,992	: 6,470	: 7,039	: 7,671
Other.....	: <u>4,483</u>	: <u>3,915</u>	: <u>4,064</u>	: <u>4,117</u>	: <u>4,312</u>
Total foreign.....	: 36,006	: 38,961	: 42,267	: 44,250	: 46,039

1/ Excludes gold holdings of the Soviet Bloc.

2/ Includes Part I member countries of the International Development Association.

Problems of Primary Producing Countries

Less developed countries have been experiencing serious instability of export proceeds resulting from the relatively slow growth in the external demand for their primary agricultural products. Countries which must rely on one or two agricultural exports for foreign exchange earnings are continually exposed to fluctuations in the prices of these commodities, which produce periods of high export earnings alternating with periods of low earnings. The favorable trend in sugar prices, for example, has led to an increase in the foreign exchange earnings of several Latin American countries; on the other hand, lower coffee prices that have recently prevailed have led to declines in the reserves of chief coffee exporting countries.

The effects of these fluctuations are varied. In periods of high earnings, imports tend to increase and foreign exchange reserves dwindle. Moreover, increased earnings may induce the country to enlarge its foreign debt while it appears more solvent, and it may accept harder terms than it is ordinarily capable of servicing. Then, if after depleting reserves, a country

suffers a sharp decline in foreign exchange earnings from agricultural exports, the country is faced with paying for imports previously ordered, larger foreign debts, and even lower foreign exchange reserves.

While sound monetary and fiscal policies are necessary on the part of national governments to correct such a situation, several international organizations have sought other solutions, or partial remedies, to the problems of developing countries. In early 1963, the IMF created a special drawing facility to compensate for temporary shortfalls in export receipts which are beyond member countries' control. The arrangement permits a member country practically automatic access to a drawing equal to one-fourth the amount of its IMF quota. This allows countries to maintain their imports, industrial and agricultural, and at the same time to continue economic development. The first country to use the Fund's expanded facilities was Brazil, requesting a \$60 million drawing in dollars in June 1963. The drawing was approved in view of the substantial reduction in 1 year of Brazil's holdings of gold and foreign exchange. Brazil experienced a shortfall in the receipts from exports of coffee and cocoa, these commodities constituting about 87 percent of total exports. In October the United Arab Republic requested a \$16 million drawing (in convertible currencies other than dollars) under the IMF compensatory financing provision. The request was approved because of a temporary decrease in the UAR's agricultural exports.

The reliance of developing countries on one or two agricultural exports has produced longer run, more serious swings in export earnings than the countries are prepared to handle. More foreign aid and private foreign investment have been suggested, and international commodity agreements have played an increasing role. They are intended to maintain short-term price stability and reverse long-term price trends through the imposition of import and export quotas or various production controls.

A more important avenue toward aiding agricultural countries, which are almost invariably placed among the developing countries, is a high rate of growth in the advanced countries that stimulates demand for the agricultural products of developing countries. The low income elasticities of demand in advanced countries for agricultural products cannot, however, be ignored. If a high growth rate in the importing countries is achieved and leads to increased agricultural exports from developing countries, the benefits can be great.

The problem of growth and its related effects on agriculture is being studied in the Organization for Economic Cooperation and Development (OECD). The IMF is studying the problem of deficiencies in international liquidity. Whatever proposals emanate from these discussions can have a direct effect upon U.S. agricultural exports and imports.

In the fiscal year ended June 30, 1963, U.S. agricultural exports reached a near-record level, but commercial exports to most primary producing agricultural countries did not change substantially. U.S. agricultural imports increased by an estimated 4 percent; imports from the primary producing countries remained about the same. The United States may improve its terms of trade through weakened prices for agricultural commodities exported by the

developing countries, but the dollar holdings of these countries will be less, thereby reducing their opportunities to import from the United States. Their earnings of other convertible currencies which might be exchanged for dollars will also be less. Rising incomes in these primary producing agricultural countries could lead to expanded U.S. agricultural and other exports. World prices of their agricultural exports are probably the major determinant of their incomes. Thus, expanded agricultural trade is a means of enlarging primary producing countries' foreign exchange holdings and increasing potential agricultural purchases from the United States. Expanded agricultural trade and stability of primary commodity prices, whether through commodity agreements or through world economic growth, should be the aim of the free world if earnings of less developed countries are to increase.

The Adequacy of International Liquidity

Sudden short-term capital movements between countries, because of investment speculation, expectations of changes in exchange rates, or political or economic difficulties, have occurred more frequently in recent years. The increasing acceptance of convertible currencies, in addition to the dollar and sterling, in world payments transactions has stimulated international trade but has also intensified sudden capital flows. To facilitate the functioning of the existing international monetary system, it has seemed desirable in some quarters to strengthen the available resources which serve as reserves of countries and of international financial organizations.

Recent discussions have taken place in international financial circles over the possible reformation of the world monetary structure to provide for an increase in world liquidity, when needed, to support a larger volume of world agricultural and industrial trade. International liquidity consists of gold and foreign exchange reserves and other monetary instruments such as drawing rights on assets held by international financial institutions.

In the September-October 1963 meetings of the IMF it was agreed that two studies by the Fund staff and by the Committee of Ten would be made and submitted to the 1964 Fund meetings in Tokyo. The Committee of Ten, composed of major industrial countries, 3/ has sought to improve world liquidity by agreeing in October 1962 to a "Borrowing Arrangement" under the auspices of the IMF. Under this arrangement these major countries are prepared to provide the Fund with specified amounts of their currencies up to an aggregate of \$6 billion when such resources are required. 4/ This arrangement and the decision to study the world monetary system should not obscure the progress by IMF and national monetary and fiscal authorities in past years to overcome balance-of-payments difficulties and induce greater stability in international trade.

3/ Belgium, Canada, France, Germany (Deutsche Bundesbank), Italy, Japan, Netherlands, Sweden, United Kingdom, United States.

4/ Since borrowings would be by participating members, the amount available to any member is less than \$6 billion: For example, the United States contributed \$2 billion; thus, its maximum borrowing would be \$4 billion.

If international trade could be so handled that countries did not suffer large deficits or enjoy excessive surpluses, smaller reserves, or liquidity, would support a larger volume of trade. However, volatile swings in the balance of payments of some member countries of the IMF have occurred. So far they have been well within the Fund's ability to aid. In 1 year beginning in December 1956, the Fund's transactions increased by \$1 billion. The Suez and post-Suez crisis was well handled by the Fund with its given resources. Since then the Fund's holdings of gold and foreign currencies have risen by around 60 percent to \$15 billion, resulting from a 50 percent increase in its resources in 1959 and subscriptions of new members.

Special measures have also been adopted by groups of countries to cope with volatile shifts of funds. Under the "Basle arrangements" of 1961 the central banks of 8 European countries agreed to cooperate for a time in the exchange market to prevent a loss of confidence in the pound sterling. Loss of confidence might have resulted from the revaluation of the deutsche mark and the Netherlands guilder, and from unfavorable balance-of-payments developments in the United Kingdom. Other arrangements have been made to reduce pressures on gold as a means of international settlements and to steady its price. Such arrangements involved agreement between central banks not to convert dollar balances into gold and to lessen the pressure on U.S. gold reserves by establishing a "gold pool" among European central banks.

Thus, while particular countries suffering heavy balance-of-payments deficits may need additional resources, there is no deficiency at this time in total international liquidity as a base for total international trade.

Concern that a reversal in the U.S. balance-of-payments position from deficit to surplus could reduce the supply of dollars to the rest of the world is the basis for some pessimistic views about future liquidity. But reserves are not the only form of financing balance-of-payments deficits, and increasing liquidity through expanded credit arrangements has been the major subject under discussion. ^{5/} Some expansion of these facilities has already occurred, such as "swap" arrangements between nations and the new compensatory financing facility of the IMF discussed earlier in this report. New mechanisms to increase these lines of financing may be justified in the future to overcome deficiencies in currencies available for international trade or to settle deficits in countries' balance of payments arising from nontrade transactions.

United States Balance of Payments

The international transactions of the United States during the first half of 1963 resulted in a deficit of \$1.87 billion, which at an annual rate would be \$3.7 billion. This includes the sale of nonmarketable, medium-term, convertible U.S. Government securities. Compared with deficits of less than \$2.5 billion in 1961 and 1962, the 1963 figure represents an increase in transfers abroad of U.S. monetary assets, and a rise in U.S. liquid liabilities to foreign countries (table 3).

^{5/} Robert V. Roosa, Under Secretary of the Treasury, discusses the future of international liquidity in "Reforming the International Monetary System," Foreign Affairs. Vol. 42, No. 1, Oct. 1963.

Table 3.--U.S. balance of payments, 1962 and first half of 1963 ^{1/}

Type of transaction	1962		1963		
	First	Year	First	Second	First
	half		quarter	quarter	half
-----Million U.S. dollars-----					
1. Current account, balance.....	2,389	5,874	1,155	1,428	2,583
Exports of goods and services, total....	14,806	29,790	7,204	8,121	15,325
Merchandise.....	10,445	20,479	4,945	5,670	10,615
Military transactions.....	324	660	164	243	407
Income on investments.....	1,930	4,322	1,077	1,012	2,089
Other services.....	2,107	4,329	1,018	1,196	2,214
Imports of goods and services, total.....	-12,186	-24,964	-5,919	-6,552	-12,471
Merchandise.....	-8,004	-16,145	-3,915	-4,222	-8,137
Military expenditures.....	-1,502	-3,028	-748	-717	-1,465
Other services.....	-2,680	-3,736	-1,256	-1,613	-2,869
Private remittances.....	-231	-491	-130	-141	-271
2. Capital account, balance.....	-3,290	-7,035	-1,872	-2,698	-4,570
U.S. private capital, net.....	-1,669	-3,273	-974	-1,611	-2,585
Short-term, net.....	-234	-507	61	-508	-447
Direct investment, net.....	-695	-1,557	-501	-452	-953
New issues of foreign securities.....	-482	-1,076	-506	-520	-1,026
Other long-term portfolio, net.....	-258	-133	-28	-131	-159
U.S. Government, net.....	-1,974	-4,782	-971	-1,300	-2,271
U.S. Government economic grants and					
loans.....	-2,316	-6,065	-1,122	-1,464	-2,586
Repayments on U.S. Government loans....	342	1,283	151	164	315
Foreign long-term investment, net.....	353	1,020	73	213	286
3. Unrecorded transactions.....	106	-1,025	28	88	116
4. Total net receipts (+) or payments (-)....	-795	-2,186	-689	-1,182	-1,871
5. Net receipts from sales of U.S. nonmar-					
ketable medium-term convertible					
securities.....	---	---	350	152	502
6. Total net receipts or payments including					
Item 5 above.....	---	---	-339	-1,030	-1,369
Memorandum items:					
Gold sales (-).....	-420	-890	-111	-116	-227
Convertible currencies, purchases (+).....	438	-17	33	-6	27
IMF gold tranche position, increase (+)....	-281	-626	46	-2	44
Foreign holdings of liquid dollar assets,					
increase (-) ^{2/}	-532	-653	-657	-1,058	-1,715

^{1/} Excludes military grant aid.^{2/} Includes U.S. Government nonmarketable medium-term convertible securities.Source: U.S. Department of Commerce. Survey of Current Business, June and Sept. 1963.

The nonmarketable, 15-16 month convertible securities, which were sold to foreign central banks for the first time during the first quarter of 1963, totaled \$502 million in the first half. These securities are distinguished from nonconvertible securities (described in Foreign Gold and Dollar Reserves, April 1963) by their ease of convertibility at 2 day's notice into short-term claims and thence almost immediately into dollars or convertible foreign currencies. By one method of computation, these securities are considered to be liquid liabilities, since they are characterized by quick convertibility and minimum risk. Thus considered, they serve to increase the U.S. deficit. ^{6/} If these securities are considered to be medium-term obligations instead of short-term liquid liabilities, the adverse balance for the first half of 1963 is reduced to \$1.3 billion, and the annual rate would approximate \$2.7 billion. This method of accounting for the securities would transfer the recorded deficit on this account to a later period.

Special payments in the first half did not appreciably reduce the adverse balance on more usual types of transactions. Advance repayments on U.S. Government loans and advances for military exports, which reduced the 1962 deficit by over \$900 million, amounted to less than \$50 million in each of the first 2 quarters of 1963. However, such payments have usually been made in the last 2 quarters of the year and further reduction of the adverse balance may be expected.

Private Capital Outflow

The major factor contributing to the size of the 1963 deficit was the record net outflow of nearly \$2.6 billion of private capital. ^{7/} Of this amount direct investments abroad totaled \$950 million, up from \$700 million in the same period last year. At the same time, income from direct investments declined \$100 million during the period. Purchases of newly issued foreign securities totaled \$1,026 million, nearly equal to total purchases in 1962 and nearly double purchases in 1960 and 1961. The issues consisted primarily of

^{6/} The U.S. balance of international payments is measured by changes in U.S. monetary reserve assets and in liquid liabilities to foreign official holders.

^{7/} While private investments overseas in the short run adversely affect the balance of payments, these transactions almost undoubtedly have a favorable long-run effect. Most U.S. private investments abroad are in long-term direct investments. In every year since 1958, incomes from these investments have exceeded the amount of outflow for new direct investments. Portfolio investments abroad are mainly in foreign private and government bonds, and partly in foreign stocks. Any portfolio investment abroad will, in the very short run, be a deficit. Investments in bonds will be a long-run gain, however, as interest and dividend payments are made to the U.S. investor. Portfolio investment in stocks will eventually result in a capital gain if the U.S. investor is successful in his investment, thereby aiding the U.S. balance of payments since the investor commands a larger amount of dollars in exchange for his foreign currency holdings than he surrendered when making his original investment. For a discussion of the international role of private capital, see The United States Balance of Payments in 1968, Brookings Institution, Aug. 1963.

private Canadian securities and to a lesser extent public European offerings. Private short-term capital outflows reached \$500 million in the second quarter of 1963, equal to the total for 1962. Net outflows totaling \$470 million of long- and short-term credits by U.S. banks were recorded for the 6-month period, although the first quarter of 1963 showed a net inflow. Net capital flows to Common Market countries, Japan, and Canada surpassed the high rate of 1962, reaching \$2,222 million, nearly 86 percent of the total outflow in the first half of 1963. Thus continues the tendency of U.S. capital to flow to the industrial countries capable of accumulating reserves, while less developed countries continue to have reserve deficiencies.

Rise in Merchandise Trade Balance

Partly offsetting the adverse capital account of the balance of payments was a rise in the merchandise trade balance; the January shipping strike had no net adverse effect since it merely postponed shipments to later months in the first half. Merchandise exports reached an annual rate of \$21.2 billion in the first 6 months of 1963, an increase of \$170 million over the same period a year earlier. Merchandise imports increased at an annual rate to over \$16 billion. About 30 percent of total merchandise exports in the first half were financed through Government grants and credits (table 4). These exports accounted for nearly all the gain in exports.

Although the first 6 months of 1963 showed only a modest gain of about \$60 million in agricultural exports over the comparable period in 1962, crop shipments for fiscal year 1963-64 are expected to increase sharply. Exports of wheat and cotton are rising. The demand for agricultural imports has increased in Europe due to a bad crop year for grains, and U.S. authorities in October announced that export licenses would be granted to U.S. private traders for sales of wheat, feed grains, and other agricultural commodities to the Soviet Union and Bloc countries. If these sales materialize, there will be an even stronger upsurge of commercial exports.

The proposed U.S.-USSR wheat sale would have a direct positive effect of around \$250 million on the U.S. balance of payments, whether payment is made in gold, dollars, or convertible currencies. A direct gold payment would increase the U.S. gold stock. A gold payment to the London market, where Russia traditionally buys convertible currencies with gold, would increase the gold supply on the London market and relieve demand on the U.S. gold supply.

Russian payment in dollars or in convertible currencies would support the dollar rate: The United States may hold the currencies as a temporary resource for exchange market operations similar to those effected under the reciprocal currency "swap" agreements with convertible currency countries. If the United States chose to sell the currencies for dollars, the transaction would reduce the outstanding supply of dollars held by foreigners and thus reduce the amount of liquid claims against our gold. In addition, the sale would reduce the U.S. wheat surplus, currently amounting to around 1 billion bushels, to more manageable proportions, probably to somewhere in the neighborhood of 600 million bushels.

Table 4.--U.S. merchandise exports by major components, 1962 and first half of 1963

Transaction	1962		1963	
	First : half :	Year :	First : quarter :	Second : quarter :
	Million dollars	Percent	Million dollars	Percent
Merchandise exports.....	10,445	100	4,945	5,670
Agricultural exports, total.....	2,574	---	1,205	1,419
(1) Public Law 480, total.....	870	7	386	518
Title I, sales for foreign currency.....	567	(5)	296	357
Title II, disaster relief.....	90	(1)	38	68
Title III, donations and barter	194	(1)	29	82
Title IV, long-term supply and dollar credit sales.....	19	(0)	23	11
(2) Agency for International Development programs, sales for foreign and economic aid.	27	0	1	3
Total agricultural exports under specified government programs (1) and (2).....	897	---	387	521
(3) Commercial sales of agricul- tural exports.....	1,677	17	817	899
Nonagricultural exports, total.....	7,871	---	3,740	4,251
(1) Financed by government grants and capital.....	333	4	213	367
(2) Commercial sales of nonagri- cultural exports.....	7,548	72	3,527	3,884
				7,411
				5
				70

Source: Office of Business Statistics, Dept. of Commerce and various issues of Foreign Agricultural Trade of the United States, DTA-ERS, USDA.

Exports of nonagricultural products have also improved in 1963, particularly exports of consumer goods and certain industrial equipment to Western Europe. Exports to other areas have expanded, but partly because of increased shipments under aid programs.

Finally, a decline of military expenditures abroad in the first half of the year and an increase in foreign purchases of U.S. military equipment and services produced a gain of \$103 million on current account.

Recent Monetary Measures

The estimated annual rate of the deficit in the third quarter this year approximates \$2.5 billion, considerably less than the second quarter's record annual rate of \$4.7 billion. This improvement is probably the result, in large part, of several monetary measures introduced at the beginning of the third quarter, designed to stem the outflow of short-term capital.

First, the Federal Reserve Board in July increased the discount rate in 7 Federal Reserve districts from 3 to 3½ percent and raised to 4 percent the permissible rate of interest on time deposits payable by all member banks. This caused an increase in short-term interest rates from around 3 percent in June to almost 3.5 percent in early September and encouraged short-term investment in the United States. At the same time, the supply of savings available for long-term investment has, so far, helped prevent a rise in long-term rates in the United States.

The second monetary measure was a request by the United States for a standby arrangement of \$500 million with the IMF. The arrangement will have the net effect of increasing the Fund's holdings of dollars, providing repaying countries with convertible currencies other than dollars, and reducing possible U.S. gold losses. Before the U.S. standby, the Fund could transact only insignificant dollar repurchases, as the Fund's holdings of dollars were at the maximum, that is, 75 percent of the U.S. quota. Repaying countries holding dollars would have been obliged to exchange the dollars in other markets in order to repay the Fund in those foreign currencies which the Fund could still accept. To the extent the dollars would have been transferred to foreign monetary authorities, official short-term claims on the U.S. gold stock would have increased.

As a third measure, the Administration proposed the Interest Equalization Tax on purchases of various classes of foreign securities in order to reduce incentives for U.S. residents to invest abroad and to discourage foreign capital flotations in the United States. While the tax represents a form of control over capital movements, it is mild when compared with the controls of major foreign authorities over their respective capital markets. Although the tax has not been enacted into law by the Congress, the effects of the anticipated tax have, in some cases, been beneficial to other countries. Canada's July capital inflow was far above the May and June rates, resulting from the cessation of net resales in the Canadian market of Canadian stocks held by Americans. American owners of Canadian securities were satisfied to hold stocks rather than sell and face a tax penalty for new purchases. It has since been determined by U.S. authorities that new issues of Canadian securities will be exempt from the tax.

The expectation that the tax measure would become law may have been responsible for some increase in European interest rates, which were accompanied by increases in the rate for Eurodollar loans. Eurodollar accounts are dollar denominated accounts held abroad to earn higher rates of interest for the holder than can be earned in deposit accounts in U.S. banks. If the United States increases interest rates further, the supply of dollars available to the Eurodollar market may be reduced as holders of Eurodollar deposits shift such deposits to the United States.

The Eurodollar market has been a prime cause of the dollar outflow, with U.S. lenders responding to the higher rates of interest. The exact magnitude of these dollars is unknown, although educated guesses place the amount at anywhere from \$2 billion to \$5 billion. Given such a magnitude, strains on the dollar can arise with little or no direct connection to basic U.S. trade and commerce. These effects may reach other countries. Japan's recent concern over the rapid inflow of Eurodollars into the country in search of higher interest rates led officials to lower the interest rates on short-term Eurodollar deposits.

As a further step toward balancing U.S. international accounts, a White House Conference on Export Expansion, composed of business and government representatives, was held in September of this year. Its purpose was to find new approaches for expanding U.S. agricultural and industrial exports in the world market. In a major speech, the Secretary of Agriculture pointed out: "Difficulty of obtaining market access is the most serious problem hampering U.S. agricultural exports. Agricultural protectionism--over-protectionism, that is--takes many guises. We see it in the form of import quotas, embargoes, variable levies, monopolies, preferential treatment, and others." For example, variable import levies imposed by the European Economic Community in 1962 caused a decline of 10 percent in U.S. agricultural exports to the EEC in fiscal year 1963. Exports subject to the levies such as wheat, wheat flour, poultry meat, eggs and feed grains were highly affected, whereas farm exports not subject to the levy system dropped less than 1 percent from the previous year.

International Reserve Movements in Selected Industrial Countries

The trend of industrially advanced countries, particularly in Western Europe, to accumulate international reserves has persisted over the last dozen years. Holdings of continental Western Europe now total almost \$28 billion, having increased about \$17 billion over the past 12 years. Reserves of Canada and Japan have risen \$21 billion and United Kingdom reserves are \$0.5 billion higher than they were 12 years ago. Most of these increases have been provided in effect by the willingness of the United States to refrain from imposing financial restrictions. The result has been a movement of \$6 billion of gold abroad, principally to the advanced countries. Moreover, a rise of \$13 billion in U.S. dollar obligations to foreigners, both official and private, has provided most of the additional increase in these countries' reserves. The trend toward increasing reserves continued throughout the first half of 1963.

Gold and foreign exchange reserves in France increased to \$4.7 billion during the first 6 months this year. Between December 1962 and June 1963 the gold component of reserves rose \$227 million. During this period, France paid a debt of \$60.7 million to the World Bank and made several other regular payments. In July the gold component increased another \$149 million. The increase in reserves enabled the country to liquidate ahead of schedule the unpaid balance of a 1956 Export-Import Bank loan. A continuing inflow of capital and increased net borrowings abroad by French commercial banks contributed to the upward movement in reserves. Fiscal measures recently adopted to counter inflationary pressures led to a tightening of the money market and thus to the need of French banks for foreign borrowing. The balance-of-payments position remains strong, despite the trade deficit with non-Franc area countries.

Total monetary reserves of the Federal Republic of Germany increased \$226 million in the first half of 1963, compared to a decline of \$322 million in the comparable period last year. The surplus on current account transactions was less than in the 1962 period, and net transfers declined; but capital inflows, particularly private long-term capital, created a net surplus on capital account of \$214 million, compared to a net deficit in the first half of last year. Commercial bank balances at foreign banks increased during January-June 1963. These increases represent foreign exchange moved abroad by the German commercial banks, which appears in the official reserve balances only when the banks convert the foreign exchange into deutsche marks at the German Federal Bank.

Table 5.--Factors affecting movements in German gold and foreign exchange assets

Item		
	1962	1963
	Jan.-June	Jan.-June
	<u>Million U.S. dollars</u>	
Balance on goods and services.....	372.8	344.5
Trade balance.....	389.0	451.6
Services balance.....	-16.2	-107.1
Transfers, net.....	-487.0	-464.0
Capital transactions, net.....	-590.6	214.6
Long term, net.....	-9.8	326.8
Short term, net.....	<u>-580.8</u>	<u>-112.2</u>
Net change in gold and foreign exchange....	-322.0	226.0
Gold.....	3.0	74.3
Foreign exchange.....	-311.5	177.8
Other.....	-13.7	-26.0

Source: Monthly Report of the Deutsche Bundesbank, August 1963.

The Italian economy at midyear 1963 remained at a high level of activity. Imports continued to rise faster than exports during the first half of 1963; the deficit in the trade balance rose sharply to \$1.2 billion compared with \$638 million a year earlier. Rising imports of foodstuffs, raw materials, and consumer durables were mainly responsible for the enlarged trade deficit. The net balance on services was up slightly during the period. However, the rate of capital outflows, together with an enlarged trade deficit, resulted in an overall balance-of-payments deficit of \$679 million compared with \$111 million in the first half of 1962. Despite the large overall payments deficit, net reserves fell only \$123 million. The major part of the deficit was financed by heavy short-term borrowings by Italian banks rather than drawing down reserves; this method of settling balance-of-payments accounts contributed to the internal inflation. These borrowings may reveal a phenomenon in Italian finance. Political instability over recent months seems to have led to an increase in the outflow of capital from Italy to Switzerland. Borrowing by Italian banks in Switzerland may mean, in effect, that Italians are lending to their own banking system through Swiss banks, thus affording themselves greater protection against weakness which may develop in the lira exchange rate. Official reserves at the end of June 1963 totaled \$3.5 billion, including the IMF gold tranche position.

The Netherlands balance of payments was in surplus for the first half of 1963. Despite a widening of the trade deficit--which a boom in agricultural exports to France and Italy kept smaller than otherwise would have been the case--the inflow of investment income and net receipts in other services resulted in a surplus on total goods and services account. This surplus was sufficient to offset capital outflows during the period. Gold and foreign exchange of The Netherlands Bank and authorized commercial banks rose \$85 million during the first half. The Netherlands in July made an advance debt repayment of \$70 million to the United States, but the Dutch guilder has remained strong as a result of the continued favorable balance of payments. Another possible cause of the strength of the Dutch guilder was some speculation that the guilder might be revalued. However, the beginning of a rising trend in Dutch wages would seem to make such a possibility remote at this time.

Denmark's total reserves rose sharply in the first 6 months of 1963. Disinflationary policies that led to increased exports and a narrower trade gap were partly responsible; but the major rise in reserves came from borrowing abroad and from direct investments by foreign companies. While dollar reserves rose \$13 million, other convertible currency holdings increased \$47 million.

The United Kingdom's balance of payments in calendar year 1962 was in surplus by \$288 million compared with a surplus of \$56 million in 1961. Although the trade balance was in deficit for the year, net earnings on services, interest, profits and remittances totaling \$386 million resulted in a current account surplus of \$188 million. This was the first time that the current account has been in surplus since calendar 1959. Including the net outflow of long-term capital (\$257 million) the basic payments balance of \$70 million remained practically unchanged from 1961. Net short-term capital inflows totaled \$314 million compared to an outflow of \$171 million in 1961. At the end of 1962, gold and convertible currency reserves totaled \$2.8 billion.

In the early part of 1963, a speculative run on sterling resulted in a loss of U.K. reserves. This was a consequence of a sudden movement of capital following the breakdown of U.K.-EEC negotiations and the European Monetary Agreement (EMA) compromise proviso, effective March 1, 1963, setting limits to the balances in other member countries' currencies qualifying for an exchange guarantee by the Bank of England. 8/ Most of the movement of capital out of sterling occurred in February and early in March. As sterling weakened in the exchange market, several European central banks extended financial aid totaling \$250 million. This aid was subsequently repaid in June.

During the first half of 1963, gold and convertible currency reserves of the United Kingdom dropped \$93 million to \$2.7 billion by the end of June; however, most of the loss in reserves occurred in February and in June when the United Kingdom repaid the European central banks. In July reserves rose \$19 million and totaled \$2.7 billion, a level that continued to prevail as late as the end of September. At the end of July the IMF renewed the U.K. standby, which authorized the drawing of currencies up to \$1 billion in the event of any temporary payments difficulties.

In calendar year 1962, the Canadian overall payments position vis-a-vis the United States was in surplus by \$329 million, even though the payments position was in deficit by \$511 million in the first half of 1962. The resumption of U.S. private capital outflow to Canada, following Canada's recovery from the financial crisis at midyear 1962, led to the improved payments position. In the first quarter of 1963, a surplus for the United States on merchandise trade with Canada, and the purchase of \$125 million of U.S. Treasury nonmarketable securities by Canadian monetary authorities resulted in an overall Canadian payments deficit of \$89 million with the United States. The rate of U.S. private investment in Canada in the first quarter of 1963 was \$405 million, only \$53 million less than in the last half of 1962.

Canadian reserves, primarily U.S. dollar assets, increased \$155 million to \$2.7 billion during the first half of 1963. However, reserves dropped \$192 million during July. This drop reflected a partial repayment to the IMF of the Canadian drawing of \$500 million last year and the use of reserves by monetary authorities to support the Canadian dollar during July.

By the end of this year or early next year, Japan is expected to assume Article VIII status with the IMF. As an Article VIII member, Japan will assume the obligation of (1) making all payments and transfers for current international transactions free of restrictions, (2) avoiding discriminating currency practices, and (3) making the yen fully convertible. Although Japan's balance of payments deteriorated during calendar 1961, with a deficit of \$338 million, the general fiscal and monetary actions of Japanese authorities

8/ Any current balance held in currencies of other EMA member countries with an EMA central bank can be converted into U.S. dollars at a predetermined exchange rate, with the exception of the Bank of England. It was agreed that after March 1, 1963, limits to the balances in sterling qualifying for the guarantee and equivalent limits for the Bank of England's holdings of other EMA currencies were established. See European Monetary Agreement. Organization for Economic Co-operation and Development. Fourth Annual Report of Board of Management. 1962.

were successful in restoring a surplus payments position equivalent to \$355 million for calendar 1962.

In the first half of 1963 the Japanese payments position was in surplus by \$61 million, and gold and foreign exchange reserves were increased by exactly that amount. An improved payments position for Japan may aid the United States, which exports numerous agricultural products to the country, including wheat, soybeans, and cotton. For fiscal year 1963, U.S. agricultural exports to Japan totaled \$511 million.

During fiscal year 1963 South African official gold and foreign exchange reserves increased \$133 million and as of June 30 totaled \$731 million, one of the highest levels ever reached in the Republic. Rising gold production has been largely responsible for the continued gain. Gold production during the fiscal year amounted to \$921 million, an increase of \$76 million over fiscal 1962. Exports totaled \$1,315 million, a decrease of \$46 million from the record high in the previous year. Imports increased 21 percent, resulting from the relaxation of import controls and an increased demand for imported goods.

Israel's foreign exchange reserves have increased substantially in 10 years, reaching \$540 million in June 1963. This represents an increase of \$121 million since the end of 1962. Imbalances on trade account have been more than covered by bond flotations and capital inflows, including reparation and restitution payments. Imports, primarily raw materials for development and producer durables, have continued at a high level. The increase in export earnings in 1963 is due largely to increased exports of polished diamonds and citrus fruits. Agricultural production in the year ended September 1963 was 15.5 percent above the year-earlier level.

Foreign Exchange Movements in Selected Developing Countries

In contrast to remarkable gains in gold and foreign exchange holdings of industrially advanced countries over the past 10-12 years, reserves in developing countries have remained at almost a stationary level. In fact, reserves in many developing countries have declined to levels far below those prevailing in 1953. While a developing country normally would expect to use reserves for economic development, it would also hope to replenish these reserves to some extent. In some cases, however, unwise monetary or fiscal policies have prevented such replenishment.

Other developing countries have undergone foreign exchange losses because of price or production deterioration in their primary commodities. Such countries are forced to draw heavily on other assets--such as their quotas with the IMF--or incur heavy foreign borrowing, which increases debt-servicing obligations and places even more severe pressure on their depleted reserves. This limited availability of foreign exchange is a chief deterrent to the expansion of U.S. agricultural exports to the developing countries.

Some countries, however, have recently improved their balance of payments, at least in the short run.

Gold and foreign exchange reserves in Greece increased \$14.8 million during the first half of 1963 to \$284.7 million. The first quarter trade deficit was \$88.2 million compared with \$81.1 million a year earlier. However, the surplus on invisible transactions continued to be more than ample to offset the trade deficit of the first quarter. The inflow of \$31.1 million in private investment during the first quarter contrasts with \$18.9 million in the comparable period a year ago. Private investment in Greece rose from \$57.6 million in calendar 1961 to \$97.1 million in 1962.

Spain's payments position in the first 5 months of 1963 was in deficit by \$19.5 million compared to a surplus of \$110.1 million in the first 5 months last year. Imports rose 36 percent, while exports fell 11 percent. The trade deficit for the first 5 months of 1963 was \$352.1 million. Net receipts from services--particularly tourism--private remittances, and capital inflows were up slightly. But they were insufficient to offset deficits on goods and services transactions. During 1962, gold and foreign exchange reserves rose \$160 million, but reserves dropped \$30 million during the first 6 months of 1963. Over half of Spain's reserves are now in gold as a result of a rise in the gold component of \$128 million in the first half of 1963.

Trade deficits persist in the Yugoslav balance of payments (\$347.7 million in 1961 and \$197.0 million in 1962). However, the rise in earnings on services and the inflow of foreign economic assistance resulted in an overall balance-of-payments surplus of \$27.5 million in 1962 compared to a \$15.5 million deficit in 1961. Accompanying this improvement in the payments position, gold and foreign exchange reserves rose \$39 million during calendar 1962. Reserves at the end of June 1963 totaled \$104 million, a decline of \$10 million since the end of 1962. In fiscal 1963, Yugoslav imports of U.S. agricultural products rose to \$127.3 million from \$115.6 million in 1961-62.

In the first half of 1963, Iceland suffered a trade deficit of about \$7.1 million but the loss in foreign exchange reserves totaled only \$0.3 million, as other items in the accounts were in surplus. Reserves rose \$19.6 million between 1960 and the middle of 1963.

The Philippine balance of trade improved from a \$163 million deficit in 1961 to a \$12 million deficit in 1962 and to a surplus of \$46 million in January-May 1963. Export earnings during 1962 increased due to continued high prices for the Philippines' chief products (sugar, coconut products, and lumber). Expenditures for imports rose less than export earnings due primarily to the de facto devaluation of the peso, which accompanied removal of exchange controls. In particular, Philippine imports from the United States decreased in 1962, with agricultural products accounting for a decreasing share. (Agricultural imports from the United States were \$55.5 million in 1962, down from \$75.5 million in 1961.) Factors contributing to this decline, in addition to the effects of the devaluation, are (1) declining preferential tariff rates for U.S. goods and (2) greater competition from other suppliers, notably Japan and Western Europe.

Philippine reserves, i.e., gross foreign exchange reserves of the Central Bank and net exchange reserves of commercial banks, were at a low of \$103 million on December 31, 1961. During the election year of 1961 the government

increased expenditures and followed easy-money policies. The new administration took office in January 1962 and removed exchange controls and initiated a responsible fiscal policy. The policy began to show immediate results; the balance-of-payments position improved remarkably in 1962. Gross foreign exchange reserves rose to \$144 million at the end of 1962 and to \$156.9 million on July 2, 1963. The peso has shown strength in the absence of government support and, after some fluctuation, has stabilized at the rate of approximately 3.90 pesos to the dollar.

Thailand's gold and foreign exchange reserves increased nearly 40 percent from 1959-1962 and continued rising the first 6 months of 1963. During the latter period, increased export earnings resulted from gains in the export of corn, rubber, and tin. The unusually high corn exports, up 300 percent from the corresponding 1962 period, resulted from shipments to Japan in the early part of 1963. The shipments were to have been made in 1962, but they were delayed by protracted price negotiations between the countries.

Thailand generally runs an unfavorable balance of trade (an exception being a slight surplus in 1961 when agricultural production was high) as its economic development program calls for increasing imports of industrial goods. The trade deficit is more than compensated by inflows of public transfer payments and by increasing foreign private direct and long-term investment. Thailand is continuing efforts to diversify the economy and to increase agricultural exports. Trade patterns have gradually changed as Thailand has increased industrial imports from the Western countries, and recently the country has emerged as the leading exporter of agricultural foodstuffs in Asia.

Taiwan's holdings of gold and foreign exchange increased \$62 million between December 1962 and June 1963 (a 50 percent increase) and amounted to \$186 million on June 30, 1963. For the first time since the establishment of the Republic of China on Taiwan in 1949, China's export earnings have exceeded the costs of imports, including U.S. aid arrivals. There was a trade surplus of \$6 million compared to a deficit of nearly \$74 million in the corresponding period in 1962. Sugar exports (at \$61 million) were more than double the 1962 level and accounted for most of the increase in export earnings. Exports of processed goods, mainly textiles, wood products, steel and tools, and chemicals, totaled \$45 million, a 20 percent increase over 1962.

Latest reports indicate that the trend is continuing and the trade surplus for July 1963 is \$1.1 million. Although most of the current improvement is due to the increase in sugar exports, China's economy has been improving for some time; the gross national product doubled from 1956 to 1961. There is a growing realization in Taiwan that as the economy becomes viable, U.S. aid will be gradually withdrawn. Evidence indicates that all sectors, especially exports, are striving to increase productivity and sales.

For the first time in its history Libya has had a favorable quarterly trade balance. This occurred in the first quarter of 1963, when exports exceeded imports by nearly \$12 million. Crude oil exports of just over \$64.4 million out of total exports of \$66.9 million were almost entirely responsible. Oil exports in the future are expected to be even larger and Libya's economy will continue to benefit. With increased purchasing power in the private

sector, the demand for goods and services should increase, with the value of imports of U.S. agricultural commodities rising above the extremely low level of only \$1,000 in fiscal 1963.

The United Arab Republic's reserves of gold and foreign exchange at the end of June were \$11 million higher than at the end of 1962 and covered, on the average, approximately 3 months' imports. A further deterioration this year in the already weak trade position is likely to affect Egypt's ability to buy goods from abroad. Economic development continues and Egyptian purchases abroad of capital goods and raw materials are rising. A good cotton crop is expected for the season now ending, although the world market for Egyptian cotton remains weak.

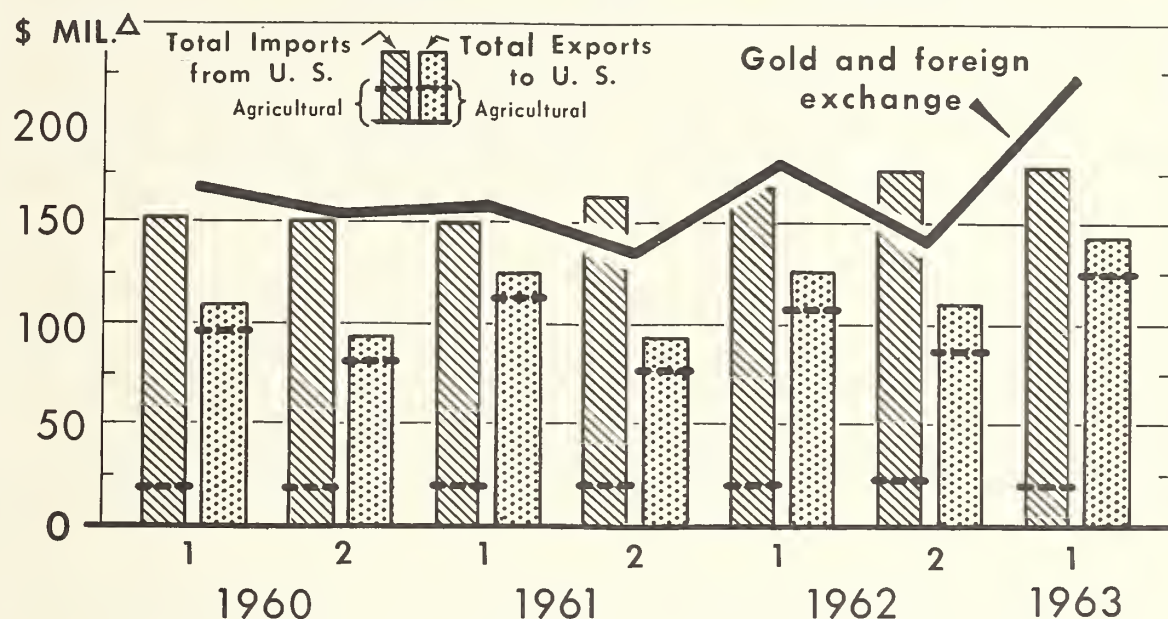
Marked progress has been made toward economic integration of the countries making up the Central American Common Market. The member countries are Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (Panama is an associate member). By the end of 1965 they are to have eliminated all trade barriers among themselves and established a common external tariff on nearly all imports. The Central American Bank for Economic Integration is already operating to finance and promote economic development in the area. A Central American Clearing House has been created to facilitate payments among members, and the 5 central banks have recently concluded an agreement with the Bank of Mexico to facilitate payments between Mexico and Central America.

As evidence of closer economic union, internal trade has increased by 3 times since 1957, and aggregate foreign exchange holdings have grown 20 percent. Trade with the United States, the area's largest single trading partner, has increased rapidly (figure 1). Central America's exports to the United States in the first half of 1963 increased 30 percent over the first half of 1960, while imports rose 18 percent. The market for U.S. industrial products in particular improved over the period. Although there has been no notable rise in agricultural imports from the United States, economic advancement and higher incomes should increase the demand for U.S. agricultural products not grown in Central America. U.S. Public Law 480 programs in the area have thus far totaled approximately \$20 million, of which \$1.2 million was sold under Title IV, a new concessional sales program calling for dollar repayment.

Among individual members of the Central American Common Market, the gold and foreign exchange holdings of El Salvador, Nicaragua, and Guatemala showed the greatest increase in the first half of 1963. Trade surpluses were also achieved during the period by these countries. Trade deficits in Costa Rica, Panama, and Honduras were of the approximate magnitudes of the corresponding 1962 period. The deficit on trade account in Panama has traditionally been offset by transactions with the Canal Zone and by revenues from the Free Trade Zone. Exports from Honduras are expected to improve by the end of the year due to increases of coffee, cotton, and other agricultural exports. Reduced banana exports contributed to Costa Rica's unfavorable trade balance.

After deficits in the previous 3 years, Argentina achieved a favorable trade balance in the first 6 months of 1963, improving the immediate outlook for the balance of payments. Gross gold and foreign exchange holdings increased \$50 million; reserves, however, remain at an extremely low level. Imports

AGGREGATE TRADE WITH THE UNITED STATES AND INTERNATIONAL RESERVES



*INCLUDING ASSOCIATE MEMBER PANAMA.

Δ U. S. DOLLARS, FOR 6-MONTH PERIODS.

U. S. DEPARTMENT OF AGRICULTURE

Figure 1

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decreased more than 40 percent and exports increased nearly 10 percent in comparison with the comparable period of 1962. Export receipts are expected to continue to grow because of favorable export prices and good crop conditions. Imports are tending downward from previous high levels, and their composition is changing with industrial machinery and raw materials replacing manufactured consumer goods. At present, about 25-27 percent of total imports are of U.S. origin, having declined from a 30 percent peak share of the shrinking Argentine market at mid-1962.

Although Argentina's external trade position has improved, internal conditions have deteriorated. The fiscal deficit has increased due to a rise in public expenditures. In addition, heavy principal and interest payments are due in 1963 and in coming years. These obligations constitute a continued threat to Argentina's balance-of-payments position. In March the IMF approved a 4-month extension of the 1962 Argentina standby arrangement of \$100 million to provide further assistance to the balance of payments.

Monetary assets of Brazil are very low and there is little prospect for early improvement. Gross gold and foreign exchange reserves have changed little since December 1962 and are considered to be at the minimum working level. Brazil's international debt burden is particularly heavy, totaling over \$4 billion, of which \$1.8 billion is due within the period 1963-1965. Payments arrears have gradually risen; to make debt servicing payments on time would require applying more than 40 percent of export earnings to such payments.

As long as the unfavorable trade balance continues, Brazil is forced to incur even larger foreign debts.

Exports by Brazil in the first half of 1963 improved slightly over the first 6 months of 1962, as receipts from exports other than coffee increased. Export receipts from the sale of the 1963 coffee crop were 2-3 percent less than in the previous year as the world market price declined. As a member of the International Coffee Agreement Brazil must limit the volume of coffee exports. Imports in the first 6 months of 1963 increased slightly, as did the U.S. share of the Brazilian market. Brazilian imports from the United States are one-third of total imports. Until the Brazilian Government is able to check, or at least to slow down, the rate of inflation, the growth of exports will be limited.

Foreign exchange and gold holdings of Bolivia rose gradually during the first half of 1963 to \$6.9 billion, after a \$4 million decline in 1962. However, a mining strike in July and August curtailed tin production, which provides 90 percent of the country's foreign exchange earnings. This led to a further deterioration in its international payments position. The strike caused a loss of production estimated at approximately \$2 million. Even before the strike, Bolivia was exporting more than 30 percent less tin than 10 years ago, despite the fact that the price of tin is about 20 percent higher.

Colombia at the end of 1962 adopted a restrictive monetary policy. This led to a major reduction of imports in the first half of 1963, imports being reduced so much that the trade gap was sharply reduced by \$53 million to a deficit of \$25.7 million. However, authorities were not able to prevent a rise in prices and wages, and some industrial unrest developed. The favorable trade performance, notably an increase in cotton exports, brought about a small increase in foreign exchange and gold reserves as of mid-1963. The decline in coffee prices has limited Colombia's economic growth, as coffee sales provide about 70 percent of total export earnings. The volume of coffee exports is controlled under the International Coffee Agreement. Colombia must depend heavily on foreign public and private financing. During fiscal year 1963, for example, the country received more World Bank loans than all the other Latin American countries combined.

The foreign exchange reserves of Jamaica continued to improve in the first half of 1963, attributable partly to receipts from government security sales abroad and partly to increased exports. Jamaica's trade deficit was reduced more than \$8 million between July 1962 and July 1963. The rise in sugar prices and increased production of sugar and alumina chiefly accounted for the export gain. Imports rose only modestly in January-June 1963; however, purchases from the United States in 1962 increased 20 percent from 1961, and the Jamaican market for U.S. agricultural products seems to be improving.

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